

A Gold Guy's View Of Crypto, Bitcoin, And Blockchain



by Tyler Durden
Tue, 12/12/2017 - 16:53

Authored by Alan Stanczyk via Medium.com,

Bitcoin was on my radar far back as 2011, but for years, I didn't think much of it.

It was a curiosity. Nothing more.

Sort of like the virtual money you use in World of Warcraft or something. In 2015, looking deeper, I slowly (not the sharpest tool in the shed) arrived at that "aha" inflection point that most advocates of honest money arrive at. I realized that a distributed public ledger has the power to change, well, everything.

Changing All The Things

One aspect of crypto that appealed to me was that this technology had the potential to bring "un-banked" people from around the world into the modern financial system. It potentially granted access to digital transactions without the use of banks for billions of people that were formerly excluded from transacting in the modern economy. People could be rewarded for their labor and have access to opportunities in ways which would not exist otherwise.

In places like Afghanistan, the local people do not go to their neighborhood super-mall to buy laptops and ipads. Much of the developing world has ever growing access to smart phones, with market penetration reaching into the billions. Developing countries are skipping the entire computer-laptop-tablet phase and moving straight into much more affordable smart/feature devices with internet access. In the Middle East and Africa, nearly all internet users are on mobile devices. Combined with crypto, all of these devices making up the internet of things grants access to a new global financial paradigm that is potentially owned by the people themselves.

Imagine a world where a teenage girl in India can start a business, sell her wares or services, and then through her phone, internet, and crypto-currency store the fruit of her labor. She can then buy an item on Amazon and have it shipped to her half-way around the world without ever having to open a bank account. This is the future that crypto-currency promises.

Having transactions validated with cryptography means we can trust the math, and not have to rely on a human intermediary or the bank. The only way to compromise the cryptography requires computing power that no private (or sovereign) entity in the world can bring to bear. I have heard one crypto expert assert that the current hashing power of the voluntary nodes processing the bitcoin algorithm has more power than all of the world's supercomputers combined. Because it is a distributed public ledger, it means that no single entity controls it, but everyone gets to see the transactions in it. This performs the primary function of every bank since Medici, which is keeping track of where the money goes. Only now, you don't need the bank. The technology has the potential to dis-intermediate the banks, and therefore the political class, from having total control of every aspect of peoples financial lives.

Bitcoin 2Gen

Bitcoin 2Gen

Hollywood actor Steven Seagal has become a believer of Bitcoin2Gen, the 65-year-old former Hollywood action star will be representing the leading cryptocurrency organization, Bitcoin2Gen, as brand a

This is not to suggest that there will be no future need for banks. There is close to \$200 Trillion USD value of fiat currency issued by governments around the world, and that has to find its way into crypto somehow. **The existing financial system will not all of a sudden fold up and disappear.** There should be ample opportunities for financial services moving forward, but there is no doubt disruption is coming.

[ZH: Gold up 7.5% YTD, Bitcoin +1675% YTD]



If crypto continues on its current path, the political and financial elites who have an interest in maintaining the current system of Central Banks, taxation, and fractional reserve banking created over the last hundred years will not take it lying down.

It is my view that once political elites realize the true threat cryptocurrency poses to their control, they will do everything in their power to delay, derail, and destroy it.

Believers in honest money have known this for millenia.

"A 'gold war' is an attempt by the government upon the constitutional rights of the individual. Why do governments resort to gold wars? Sometimes they want to wage shooting wars without raising taxes; at other times they want to indulge in 'social engineering' through the redistribution of income. But in every instance there is one common thread: governments have correctly identified gold as the only antidote against their effort to build the Tower of Babel of irredeemable debt."

- ?Ferdinand Lips 1972 - Former Founding Director of Rothschilds Bank Switzerland

Over the years the push by politicians and financial elites towards total control of the financial system and therefore the financial lives of every person on the planet has progressed seemingly unimpeded. There is a long litany of offenses which I will not attempt to catalogue here. Anyone can probably relate to increasing taxation, financial regulatory interference in their lives, and continually worsening purchasing power. When I was a kid a movie ticket was \$1.50. I just bought tickets to Stars Wars The Last Jedi for \$20.50 each, and for a family of five that starts to get pricey.

This insidious process is the basis for many of society's ills. **The honesty of the money system is the first foundation upon which a free society is built.** It is the most sacred and basic means of storing one's labor and the only hope for a future better than the one we have now. For countless millions, the hope for a better future has been slowly eroded, until only the most optimistic among us can see the light, if only dimmed through the fog of battle on an endless hamster wheel of wealth chasing required in a financial system that targets a 2 pct level of inflation. Capital formation historically precedes diversification of labor, and a prolonged contraction of labor (loss of higher paid work) is a symptom of a sickly structure that disproportionately benefits rent seekers versus wage earners. These are symptoms of a broken and dishonest money system.

In the United States today, the traditional family unit has two working parents, some of which hold two jobs, and still have a lower standard of living than the generation that came before it. Average annual incomes have been in decline for close to 40 years. Combined with the inflation that has destroyed the buying power of the US dollar, many Americans find themselves with dwindling hope.

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Our children are not blind to this. All of my kids, in their teenage years now, recognize that the system we are leaving to them is broken. They are not stupid. They are observant, and they can see the trends in motion, even if we, the supposed adults here, are unwilling to admit to it.

But still, with all the potential that crypto promised, I was unconvinced.

I will address some of the challenges I see, and some of the current memes that are clouding the benefits crypto has to offer to people who are looking at it for the first time.

Bear with me if you are a crypto-advocate. These are my own concerns, and I point them out not as a critic, but because it might be prudent to consider them. If you stick with me to the end of this article you will see I am not anti-crypto, but rather see it as an opportunity.

Crypto is the new gold

It is fascinating to me that Bitcoin is always being compared to gold, as if in order for it to be legitimate, it must somehow dethrone man's most ancient form of money. Almost every visual rendering of Bitcoin I have ever seen is in the form of a gold coin.

What I don't understand is why? Crypto has made its own place in the world by making an amazing leap forward as a medium of exchange, with thus far unrivaled capabilities. But crypto is not gold, and can never be gold. I suggest that BTC and Crypto are better as a medium of exchange, while gold is a better medium for storing value.

This is not because of some dogma I have for the metal. Some will trot out "you are just talking your book" when I mention this.

The simple fact is, out of the near 185,000 tons of estimated above ground gold, someone owns, **all of it**. Every fine gram of gold above ground belongs to someone already, whether that be in the form of bars, coins, jewelry, the thin layer on astronauts helmets that protect them from solar radiation, or the gold plated contacts in the mining rigs used to mine crypto. New gold mined from the ground is usually spoken for before it ever hits a refinery. My job as a physical gold fund manager is not to convince people to buy gold, that job has already been done.

The reason crypto can never replace gold lies in physics: Gold cannot be destroyed

Everything else can. Computers. Exchanges. Mining Pools. Wallets. Powergrids. Internets. Nations. You name it. If you blew up the planet earth, the gold atoms would still be there.

I continue to find that in the financial professional space, gold's utility value is widely misunderstood or isn't understood at all. For purposes of common ground, let's approach this from first principles. Let's start with what we absolutely know to be true, and go from there.

Wealth is created at its most basic level, when a person expends their labor, i.e., invests human energy and creates a good or service that some entity is willing to exchange an agreed token of value for. In other words, anything in excess of what we pay for where we live, what we eat, the clothes on our back, or basic necessities to survive, is wealth, or a surplus of energy.

Once wealth is created, and we have a little bit of surplus energy, what do we do with that surplus energy? We can either invest it or store it in money.

What is money? Going back to basic economics textbooks, money is a few different things?—a medium of exchange, a unit of measure, and a store of value.

I suspect many crypto-advocates will dis-like this, but I would suggest that being a medium of exchange is not the foremost utility value of money, a store of value is. There are plenty of people in Venezuela right now who have access to Bolivars as a medium of exchange, but when the value of those units of exchange plummet to near zero, they are worthless for practical purposes. If money does not retain its value, it is useless for all practical purposes of deploying ones stored labor for future use, and no amount of awesomeness as a medium of exchange will change that.

This is where gold's true utility comes into play. Not only does gold store value, it's the **way** gold stores value. Gold stores energy in a form that is indestructible. That is the key, right there, in a nutshell. I'll say it again; gold's utility value is the fact that it stores energy in a form that is indestructible. Unlike anything else you can invest or store money in, gold doesn't rely on any external force for this to continue to be true over time. It is sort of like a battery with no expiration date.

Gold exists as atomic number 79 on the periodic table. It is chemically inert and does not interact with oxygen. It is the only element with properties that make it completely immune to the forces of entropy. The only way to destroy it would be to fire it into the sun, or somehow put it in the middle of an equivalent fusion reaction that took the atoms apart at a subatomic level.

I have heard some say that "someday no one will value gold, so it does not matter." Not only do we have almost 5000 years of data to show that has never occurred, but there is literally nothing on the planet earth in accessible quantities with gold's physical properties that can replace that utility.

In a recent Twitter exchange someone said to Jim Rickards, "Jim, AI systems won't be using gold," and he answered back, "Gold won't be using the power grid." This a humorous way to make the point, but I would even take it a step further than saying **gold is not just good money, it is the only form of money that is completely resistant to financial entropy**. By financial entropy I mean that every other thing one can hold or invest money in requires human effort and interaction in some way or another to maintain. Bitcoin requires electricity, the internet, computers, developers, miners. Companies and fiat-issued currencies require human force of will to maintain. Stocks, bonds, and commodities all will erode over time without effort to the contrary. All of these require human will and interaction to resist the forces of entropy, otherwise they slowly self-destruct over time. The only thing that doesn't do that as far as I know is gold

A little challenge if you will humor me: **Can you think of any form of storing wealth, whether it be an investment in stocks, bonds, companies, real estate, Bitcoin or anything, that is not subject to entropy (self destruction if left alone) over time?**

Finally, gold remains a critical base component of the entire global financial system. The entire above ground global stock of gold is worth approximately \$7.5 Trillion in US Dollar terms, while all crypto is coming in at approx \$300 Billion (grant me some leeway here, the price is moving faster than a flaming marmot).

Central banks do not hoard coffee, sugar, copper, or Bitcoin, but they do hoard gold. The US Central Intelligence Agency classifies gold as a reserve asset. (cia.gov/library/public...) So do top level institutions such as the IMF. At the highest levels, financial elites who manage our global financial structure know the truth of this, and you can find it buried in the details, even if they deny it in public. Watch the commentary of former Central Bank Governor's regarding gold after they leave office for clues. More or less, they acknowledge gold is the emergency reset button if fiat loses confidence.

Crypto-currency is not gold, and can never replace the indestructibility of gold, but the two can work side by side in a new global paradigm of financial freedom and independence.

You can't confiscate crypto but you can confiscate gold

While partially true, this does not take into account the fact that at every point where crypto touches the fiat eco-system, it is subject to government confiscation.

Politicians figured out almost a decade ago that by controlling the chokepoints (see FATCA) such as banks, exchanges, and financial intermediaries, they are able to control the global financial system.

Crypto was designed to circumvent this, but the vast majority of the trading volume in Bitcoin is arguably for speculation. Until crypto is adopted for commercial exchange as its primary function, then touchpoints to the fiat ecosystem are a requirement. That's called a chokepoint.

This is already in play. Check out S.1241. If this bill passes, Title 31 will redefine financial institutions to include issuers or exchangers of crypto, and they aren't writing these new laws solely for the laughs. This is foundational law that will empower financial regulators to directly attack crypto users at key fiat-system chokepoints. Many regulations are already on the books which grant regulators authority to do this even if S.1241 fails. If you think that is conspiracy, I recommend "Treasury's War" by Juan Zarate. Using such chokepoints is not only a matter of fact, it is a standard tool in the modern sovereign financial warfare arsenal.

Like gold, crypto can survive 100% off the grid, meaning that if it is stored and used completely apart from touching the fiat ecosystem it cannot be confiscated, but to assume its current use value is somehow immune to confiscation at any level is naive at best.

You are too dumb to understand the technology? – people don't ride around on horses anymore dude

For those of you doing it, please stop taking this position. It is not a logical argument. It also alienates the people you are trying to convince, and is not bringing more people over to crypto.

16 years in IT, and I am still a bit of a nerd when it comes to technology. I managed wide area networks, ran datacenters, etc. Today I ordered the parts for a 12 GPU mining rig I intend to build as a science project and Christmas gift to me. I have read a half dozen books and dozens of articles and whitepapers on blockchain and distributed ledger technology. I am not a cryptographer, but I get it.

Most other common memes of crypto vs gold revolve around faith based arguments

These vary widely, but range from "we will soon mine asteroids and gold will become worthless", to "when fiat fails it is crypto's destiny to take over the smoldering remains of our financial system"....like... in accordance with the prophecy. To be fair, I know plenty of folks who think that is a role destined for gold, but saying that doesn't make it a fact.

I have heard the argument of mining asteroids so many times it is becoming like the sand in your shorts at the beach. It is not relevant, but you still have to go rinse it out to avoid chafing. This flying unicorn idea has zero credibility because it defies basic physics. Launching spacecraft isn't free, nor is anything else about this idea. There are cost inputs to all resource extraction activity which requires a market price to support, or it simply isn't economic to do. Just ask the frackers. Hell, Just ask the crypto miners.

Real Challenges Facing Crypto

I am not going to deep dive these issues, you can find ample data to support these concepts without extraneous effort.

- Not yet proven able to withstand substantial liquidity events. The first time a hedge fund bails out of Bitcoin to the tune of a hundred million usd, we will find out how deep this rabbit hole really goes.
- Automated Wash trading on some of the worlds largest exchanges. There are videos available which show automated wash trades occurring on one of the world's largest crypto exchanges. For those of you not familiar with wash trades, they are paired trades where buys happen to precisely match offer's and intentionally trend the price higher. I don't claim to know if these are legitimate, but they sure look that way.
- The entire tech stack is riddled with single points of failure, and technical chokepoints subject to interference by political elites. As with most man-made systems, there are choke points. Routers DNS TCP/IP Packet level inspection culling, etc. There are ways to circumvent most of what may be thrown at crypto on these levels, but the average person has no idea how to use them, and may react adversely when they are employed.
- Community consensus driving policy changes. I admit I am no expert on how this works, but the idea of the community deciding policy sort of short circuits the idea of this thing being driven completely by math and not depending on humans for trust.
- Hacking. The theft of crypto from exchanges, mining pools, and wallets is becoming common. The average person is not technically literate enough to secure their crypto, and this needs a solution.

- The need for more robust infrastructure. Blockchain transaction clearing vs current transactional infrastructure such as visa is not even in the same ballpark yet. There is currently a backlog of 106478 unconfirmed transactions on the BTC blockchain. (See the number as of this instant here <https://blockchain.info/unconfirmed-transactions>) . Key exchanges are a limiting and centralized potential point of failure. During periods of heavy trade volume, the largest exchanges are down and or error 404 for extended (days) periods of time.
- The Dawn of Quantum Computing. Quantum computing, if claims are to be believed, has the potential to make all existing cryptography obsolete.

Twitter conversation:

Koos Jansen [gold]

@KoosJansen

Replying to @alexstanczyk @sujitnambath

Some say BTC can survive quantum (if there's time), others say Ethereum will be quantum-proof, yet others say there is already resistant Distributed Ledger Technology.

Alex Stanczyk

@alexstanczyk

Replying to @KoosJansen @sujitnambath

Yes, but to outrun the theoretical speeds of these Quantum computers, crypto keys would have to be massive. I read one article claiming like 1 terabyte, or larger. Try storing that on a thumb drive.

And finally,

"There is only one Lord of the Ring, only one who can bend it to his will. And he does not share power." –Gandalf

The biggest risk to the success of crypto as free market money owned by the people is entrenched political and financial elites. There is a non-zero probability that political elites will simply get together, declare crypto currency illegal, and issue their own blockchain based (non distributed) cryptocurrencies which they declare to be fiat. People may be able to use crypto as a black market (see illegal) means of exchange after that, but the powers that be will do their best to make their lives hell.

I had a brief exchange with the well known Founder & CIO of Morgan Creek Capital Management Mark Yusko, that went:

Mark: "They banned alcohol and made drugs illegal and that worked really well"

Me: "To be fair, alcohol and drugs were never a threat to the gov sovereign control of the financial lives of billions of their subjects. We may all be well served if we do not underestimate the lengths gov may go to in order to retain control of the money we use."

Mark: Twitter Like

For Years The Answer Was Always Gold

For a decade I have believed that the only way to extract ourselves from this systemically corrupt morass of modern financial slavery, was to go back to an honest form of money. Coming from a gold background, and having studied monetary history, the answer to me was obviously gold.

At the end of the day, when it comes to money the common thread throughout all of human history has been confidence in mutually agreed future value?—? whether the money was shells, wood sticks, 4 ton wheels of stone?—?the people using it agreed it had value, and the asset with the 5000 year track record is gold.

So I marked time, waiting for the day that the masses would come to the conclusion that we are being collectively screwed. Only it never happened. The average person has not at any point been consciously aware of how central banks and fractional reserve banking systems extract their wealth, and maybe only vaguely aware that the political parasite has gorged itself on the people to the point where it is killing the host.

Something had to change, and gold still wasn't teaching people the way out.

Enter The Mother Of All Bubbles Large and Small (MOABLS)

Bitcoin passed the \$1000 per Bitcoin mark in the first part of the year. It seemed obvious to me, and to many others not heavily vested in Bitcoin, that it was showing all the signs of a classic bubble.

Bartenders were bragging about being crypto investors. Strippers in Denny's parking lots were giving Bitcoin investing tips. Conversation at Thanksgiving Dinner became grandpa asking grandson how to invest in "this Bitcoin thing". The leading Cryptocurrency exchange in the USA exploded with new accounts, adding hundreds of thousands of new users per day, eventually exceeding the number of brokerage accounts held by Schwab and Etrade.

By early December of 2017, Bitcoin had gone as high as BTC/USD \$19,000 in intraday trading on GDAX. Not only was this absolutely meteorically mind numbingly bubble red flag territory to anyone looking at the space without a choker chain of confirmation bias, but it may just turn out to be the biggest bubble in percentage and time terms of any bubble in all of recorded human history.

Some advocates claim that the USD price of Bitcoin is a result of its value derived from use as a superior medium of exchange. But is this really true? Instead of charting the price, it might be informative to chart transaction volume for commercial use isolated from speculative buying. That is the data I really want to see.

No, I knew with every fiber of my being that this thing was a bubble of cosmic proportions. I knew it had to crash and burn, and that it was going to happen at any moment. Woe be it to the industry when regulators came to the rescue of all the crying grandma's who lost their money.

But what if this was no ordinary bubble

Unlike the Tulip Mania, the South Seas bubble, or many of history's other mania's, this one is uniquely different in one important way.

Cryptocurrency, as a bubble, is serving an incredibly rare and important purpose. **For the first time in over a hundred years, there is now a discussion going on with average people about what money really is, and what we want it to be.** It is causing people to examine our financial system in ways that people normally never would. The typical person carries on each day with nary a thought to how our monetary system is constructed. If you were to ask 1000 random people if they knew when the Federal Reserve System was created, who owns it, and what it really does I would be surprised if one in a thousand could tell you.

For people to cross this threshold of once again examining what we use as the basis for all economic activity, it could be the single most important influence of the entire cryptocurrency phenomenon.

Do I think Bitcoin is in a bubble? Yes, absolutely. I think there is a high likelihood we are not done seeing huge corrections in the BTC/USD price. But I also think it does not end there.

It seems likely to me that Bitcoin and the entire cryptocurrency eco system has a ways to go before it is all grown up. The next major scare will likely send much of the grandma capital fleeing the space, with attendant repercussions from regulators.

But what will come after, may not be just another burst bubble. What will come after, I hope, is an awareness that we need to examine what our money is. That we will begin to consciously consider whether printing endless amounts of fiat currency that flows into the hands of the financial elite, widening the wealth gap and sowing the fields for future crisis is a good thing or not.

It seems we are on the cusp of a once in a millenia chance to discuss and think about what free and honest money is. A chance, that peoples labor could once again, just maybe, be their own.

Crypto's ascendancy will hopefully serve as a wake up call. Perhaps, there is room in the future for a global decentralized system that is owned by the people, where transactions transit the globe at the speed of light, unshackled from the entrenched financial edifice, where gold too plays a role as an indestructible hedge for storing wealth. *This may be the opportunity to bring awareness and discourse to what our money is, and what it is to become.*

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